

WATER/SNR/MEY:jrb

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4592

April 13, 2006

**R E S O L U T I O N**

(RES. W-4592), PONDEROSA SKY RANCH WATER SYSTEM (PSRWS). ORDER AUTHORIZING A GENERAL INCREASE IN RATES PRODUCING \$45,719 OR 157.73% ADDITIONAL ANNUAL REVENUE.

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**SUMMARY**

By Draft Advice Letter, accepted on December 3, 2004, PSRWS seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. An interim rate increase was granted to PSRWS, pending the processing of the GRC, to provide PSRWS with sufficient income to pay for operating expenses. For Test Year 2005, this resolution grants an increase in gross annual revenues of \$45,719 or 157.73%, which is estimated to provide a rate of return on rate base of 28.24%. The revenue requirement as determined by the Water Division is more than the amount requested in the Advice Letter and more than the recommended rate of return because it was calculated using the Rate of Margin Method, which allows Class D water companies to earn a Rate of Margin of 25% for 2005.

**BACKGROUND**

PSRWS currently serves 95 metered-rate customers in the area around Ponderosa Sky Ranch and vicinity, located 10 miles east of Payne's Creek, adjacent to State Highway 36 in Tehama County.

PSRWS requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$39,470 per year or 136.2% in 2005. The reason for the increase is to pay for increased operating expenses and to earn an adequate rate of return on plant investment. PSRWS's request shows that its gross revenue of \$29,985 at present rates would increase to \$68,455 at proposed rates. The last general rate increase was implemented by Resolution W-3022 on September 22, 1982. That resolution authorized an annual increase of \$9,000 or 99% at a rate of return of 11.7%. The rates at the time of this GRC filing were set on September 5, 2000 by Resolution W-4013, which authorized a rate increase to offset water testing fees.

PSRWS was put under receivership in October 2003. The Receiver, John W. Richardson, was unable to obtain the financial records of the company; therefore, the GRC filing was prepared using financial information for the period January-June 2004. Moreover, the company has not filed annual reports for several years. Subsequently, a financial analysis of PSRWS performed by the Water Division showed that the company had cash-flow difficulty. The Water Division, thereupon, proposed that PSRWS be granted, pending the processing of the GRC, an interim rate increase; this increase would provide PSRWS with sufficient income to pay for operating expenses. The Commission, by Resolution W-4518, effective January 27, 2005, authorized an interim rate increase of \$31,615 or 109%.

## **DISCUSSION**

The Water Advisory Branch (Branch) made an independent analysis of PSRWS's summary of earnings. Appendix A shows PSRWS's and the Branch's estimates of the summaries of earnings at present, requested, and adopted rates for test year 2005. Appendix A also shows differences between PSRWS's and the Branch's estimates of revenue, operating expenses, and rate base. PSRWS and the Branch discussed these differences and agreed upon the summary of earnings adopted in this resolution.

Under guidelines established by Commission Decision 92-03-093, the Commission staff must calculate net revenues by both the return-on-rate-base and the operating-ratio method that determines revenue, and select the method that produces the most revenue. Branch therefore evaluated the net revenue using both methods. To compute the required revenues using the rate of return method, Commission staff uses 13.15%, which is the midpoint of the rate of return range that the Commission's Audit and Compliance Branch currently recommends for Class D water utilities. For the return-on-operating ratio method (now known as the rate-of-margin method), staff uses 25%, which is the Water Division's recommended rate for Class D water. The computations indicate that the rate-on-margin method provides the higher revenue. PSRWS's draft advice letter, however, shows that the company calculated the requested rates using the rate-of-return method only. Even though PSRWS uses a rate of return on rate base of 13.50%, a rate higher than the recommended mid-point range of 13.15%, the net revenue is still lower than that calculated using the rate-of-margin method. The summary of earnings in Appendix A shows a comparison of revenue requirements using the different methods and of that proposed by the company.

PSRWS's filed tariffs currently contain two rate schedules: Schedule No. 1A – General Metered Service; and Schedule No. 2RA – Annual Residential Flat Rate Service. PSRWS currently does not have any Annual Residential Flat Rate Service customers, and did not request for any increase for Schedule No. 2A. In accordance with Ordering

Paragraph 1 of Resolution No. W-4518, approved on January 27, 2005 requiring PSRWS to cancel Schedule No. 2RA, an Advice Letter 16-W was subsequently filed on February 3, 2005 to delete Schedule No. 2RA.

The Branch's recommendation for rate design, shown in Appendix B, takes into account the size of the connections. In addition, Branch has changed the rate structure to a single rate from the two-tiered structure that was in place. It is the policy of the Branch to use a single rate unless there is a situation that makes it necessary to have a tiered rate.

PSRWS also requested that it be allowed to establish a Facilities Fee tariff schedule to accumulate funds to finance system upgrades. It proposed that the standard Facilities Fee tariff schedule<sup>1</sup> be implemented. Branch accepts that schedule, shown as Schedule F in Appendix B.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a General Metered Service rate customer with a 3/4-inch connection will increase by \$40.06 from \$25.47 to \$65.53 or 157.33%. A comparison of customer bills at present and recommended rates is shown in Appendix C.

The Commission, by Resolution W-4518, effective January 27, 2005, authorized an interim rate increase of 109%. This interim rate increase arose as a result of the Water Division's financial analysis of the company, which has been under receivership since October 2003. During the GRC review process, the Water Division determined that the company had cash-flow difficulty. The Water Division, thereupon, proposed that PSRWS be granted, pending the processing of the GRC, an interim rate increase; this increase would provide PSRWS with sufficient income to pay for operating expenses. This interim rate increase was subject to refund pending the final resolution of the general rate increase request. Because Branch's recommended rates exceeded the interim rates, no refund is required.

In PSRWS's draft advice letter, the company estimated its rate base to be \$50,000 and a depreciation rate of 3%. In the last GRC in 1982, the rate base was \$35,010, and PSRWS assumed that some plant additions had been made since that time. There are no records available to confirm this estimate: Resolution W-3022 (September 22, 1982) which approved the GRC did not even state the value of the utility plant in service or

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<sup>1</sup> Resolution W-4110, September 3, 1998, authorized all Class D water utilities to file an advice letter to place into effect Schedule F, Facilities Fees, as shown in Appendix A of the resolution, or any such lesser fees as they may deem appropriate, however, maintaining the same relationship between meter sizes that is shown in Appendix A.

the depreciation rate. Branch, however, believes that PSRWS's estimates are reasonable. Therefore, Branch establishes new, rounded-off baseline quantities - \$51,500 for utility plant in service, \$50,000 for rate base, and \$1,500 for depreciation.

The adopted quantities and tax calculations are shown in Appendix D.

The Branch's recommended Summary of Earnings and recommended new rates as presented in the Appendices do not reflect any Consumer Price Index (CPI) increase that the company is allowed to seek for 2005 but the rates themselves do. This CPI rate increase is permitted under D.92-03-093, issued on March 31, 1992. For 2005, that rate is 3.4%.

### **NOTICE AND PROTESTS**

A notice of the proposed increase in rates and notice of a public meeting were mailed to each customer on January 5, 2005. The Branch received one letter protesting the increase. The complaint centered on the increase being unduly burdensome on the low income customers in the area.

The public meeting was held at the Paynes Creek Firehouse, 33731 Ponderosa Way in Paynes Creek on February 10, 2005. The Branch's representative began the meeting by explaining the Commission's rate-setting procedure. The utility was represented by the Receiver. He explained the need for the increase. There were approximately 17 customers in attendance. One customer raised the issue that they were paying the same rate for water as everyone else, but they had to haul their water from a connection at the tank site to their home across the highway. The Receiver responded that he has filed an application to obtain an SDWBA loan to build a line to the other side of the highway.

### **COMPLIANCE**

PSRWS needs to update the following tariff schedules in its tariff book: Preliminary Statement; Schedule LC, Late Payment Charge; Rule No. 3, Application for Service; Rule No. 5, Special Information Required on Forms; Rule No. 7, Deposits; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Rule No. 15, Main Extensions; Rule No. 17, Standards for Measurement of Service; Rule No. 20, Water Conservation; Rule No. 21, Fire Protections, Form No. 2, Customer's Deposit Receipt; Form No. 3, Bill for Service; Form No. 9, Main Extension Contract-Form E; Form No. 10, Main Extension Contract-Special Facilities; Form No. 11, Uniform Fire Hydrant Service Agreement, and Form No. 12, Connection Fee Data Form.

**COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

**FINDINGS AND CONCLUSIONS**

1. The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted. These quantities include new baseline numbers for utility plant in service, depreciation, and rate base.
4. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.
5. PSRWS needs to update the following tariff schedules in its tariff book: Preliminary Statement; Schedule LC, Late Payment Charge; Rule No. 3, Application for Service; Rule No. 5, Special Information Required on Forms; Rule No. 7, Deposits; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed Bills; Rule No. 11, Discontinuance and Restoration of Service; Rule No. 15, Main Extensions; Rule No. 17, Standards for Measurement of Service; Rule No. 20, Water Conservation; Rule No. 21, Fire Protections, Form No. 2, Customer's Deposit Receipt; Form No. 3, Bill for Service; Form No. 9, Main Extension Contract-Form E; Form No. 10, Main Extension Contract-Special Facilities; Form No. 11, Uniform Fire Hydrant Service Agreement, and Form No. 12, Connection Fee Data Form.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 for Ponderosa Sky Ranch Water System to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, and concurrently cancel its presently effective rate Schedule No. 1A, General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. Ponderosa Sky Ranch Water System shall update the following tariff schedules in its tariff book: Preliminary Statement; Schedule LC, Late Payment Charge; Rule No. 3, Application for Service; Rule No. 5, Special Information Required on Forms; Rule No. 7, Deposits; Rule No. 9, Rendering and Payment of Bills; Rule No. 10, Disputed

Bills; Rule No. 11, Discontinuance and Restoration of Service; Rule No. 15, Main Extensions; Rule No. 17, Standards for Measurement of Service; Rule No. 20, Water Conservation; Rule No. 21, Fire Protections, Form No. 2, Customer's Deposit Receipt; Form No. 3, Bill for Service; Form No. 9, Main Extension Contract-Form E; Form No. 10, Main Extension Contract-Special Facilities; Form No. 11, Uniform Fire Hydrant Service Agreement, and Form No. 12, Connection Fee Data Form.

3. Ponderosa Sky Ranch Water System shall record \$51,500 as Beginning-of-Year Plant-in- Service in its 2005 Annual Report to the Commission.
4. Ponderosa Sky Ranch Water System shall record \$1,500 as End-of-Year accumulated depreciation reserve in its 2005 Annual Report to the Commission.
5. Ponderosa Sky Ranch Water System is authorized to file for 2005 and subsequent years an advice letter to increase its rates by the Consumer Price Index (CPI) as allowed by D.92-03-093, March 31, 1992 (the Risk Phase One Decision).
6. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on April 13, 2006; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

**APPENDIX A**  
**Ponderosa Sky Ranch Water System**  
**SUMMARY OF EARNINGS**  
Test Year 2005

	Utility Estimate		Staff Estimate			
	Present Rates	Requested Rates	Present Rates	At Utility's Requested Rates	At 13.15% Rate of Return	25% Rate of Margin (Recommended)
<b>Revenue</b>						
Metered Revenue	\$28,985	\$68,455	\$28,985	\$68,455	\$64,895	\$74,704
<b>Expenses</b>						
Purchased Power	8000	8000	8000	8000	8000	8000
Other Volume Related Expenses						
Employee Labor	10400	10400	10400	10400	10400	10400
Materials Expense	2827	2827	2827	2827	2827	2827
Contract Work - Repairs	1414	1414	1414	1414	1414	1414
Contract Work - Water Testing	2062	2062	2062	2062	2062	2062
Transportation Expense	4800	4800	4400	4400	4400	4400
Other Plant Maintenance Expenses						
Office Salaries	5200	5200	5200	5200	5200	5200
Management Salaries	10000	10000	7150	7150	7150	7150
Employee Pension and Benefits						
Uncollectibles						
Office Service and Rentals	1834	1834	1834	1834	1834	1834
Office Supplies and Expenses	948	948	948	948	948	948
Professional Services	2500	2500	2500	2500	2500	2500
Insurance Expense	3404	3404	3404	3404	3404	3404
Regulatory Commission Expenses	1500	1500	1500	1500	1500	1500
General Expenses	500	500	500	500	500	500
<b>Total Operating Expenses</b>	<b>55389</b>	<b>55389</b>	<b>52139</b>	<b>52139</b>	<b>52139</b>	<b>52139</b>
Payroll Taxes	2560	2560	2342	2342	2342	2342
Property Taxes	500	500	500	500	500	500
Depreciation	300	300	300	1500	1500	1500
<b>Subtotal Deductions</b>	<b>58749</b>	<b>58749</b>	<b>55281</b>	<b>56481</b>	<b>56481</b>	<b>56481</b>
Net Income	(29764)	9706	(26296)	11974	8414	18223
State Income Tax	0	800	800	800	800	1611
Federal Income Taxes	0	1388	0	1388	1040	2492
<b>Total Deductions</b>	<b>58749</b>	<b>60937</b>	<b>56081</b>	<b>58669</b>	<b>57641</b>	<b>60584</b>
Net Revenue (loss)	(29764)	7518	(27096)	9786	6574	14120
Rate Base Average Year	55689	55689	50000	50000	50000	50000
Rate of Return	-53.45%	13.50%	-54.19%	19.57%	13.15%	28.24%
Rate of Margin						25.00%

**APPENDIX B**  
(page 1 of 2)

**PONDEROSA SKY RANCH WATER SYSTEM**

**Schedule No. 1A**  
**General Metered Service**  
**Test Year 2005**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

Ponderosa Sky Ranch and vicinity located ten miles east of Paynes Creek adjacent to State Highway 36, Tehama County.

**RATES**

Quantity Rate:

All water, per 100 cu. ft. ....	\$2.13	( I )
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Quarterly Service Charge:

	<u>Per Meter Per Quarter</u>	
For 5/8 x 3/4 inch .....	\$ 76.54	( I )
For 3/4 inch .....	\$114.81	
For 1 inch .....	\$191.34	
For 1-1/2 inch .....	\$382.71	
For 2 inch .....	\$612.34	( I )

The Service Charge is a readiness to serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

**SPECIAL CONDITIONS**

1. A late charge will be imposed per Schedule No. LC. (N)
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.



**APPENDIX B**

(Page 2 of 2)

**PONDEROSA SKY RANCH WATER SYSTEM**

**Schedule F**  
**FACILITIES FEES**

**APPLICABILITY**

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises.

**TERRITORY**

This schedule is applicable within the entire territory served by the utility.

**RATES**

**Initial Fee for each Service Connection:**

For 5/8 x 3/4-inch meter	\$ 2,000
For 3/4-inch meter	3,000
For 1-inch meter	5,000
For 1-1/2-inch meter	10,000
For 2-inch meter	16,000

**SPECIAL CONDITIONS**

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. Payments made under this schedule **are not** subject to the reimbursement fee set forth in Schedule No. UF.
3. Facilities fees authorized herein shall be deposited within five days of receipt in a separate bank account paying interest. A direct confirmation from the bank shall be mailed to the Director of the Water Division after making such deposit to verify the amount deposited.
4. Facilities fees shall be treated as Contributions-in-Aid-of-Construction and follow the requirements as specified in the Internal Revenue Code Section 118 to qualify as such.
5. Facilities fees shall be accounted for as Contributions-in-Aid-of-Construction in accordance with the Commissions' prescribed Uniform System of Accounts. In addition, the balance of facilities fees collected including interest shall be reported in utility's annual report to the Commission.
6. The plant constructed with facilities fees shall be removed from rate base for ratemaking purposes.

(END OF APPENDIX B)

**APPENDIX C**

**PONDEROSA SKY RANCH WTAER SYSTEM**

**Schedule No. 1A  
General Metered Service  
Test Year 2005**

**COMPARISON OF RATES\***

Quantity Rate:	<u>Prior to Interim Rates</u>	<u>Recommended Rates</u>
First 300 cu. Ft. per 100 Cubic Feet	\$0.86	not available
Over 300 cu ft. per 100 Cubic Feet	\$1.06	not available
Per 100 Cubic Feet	not available	\$2.13

(The Water Advisory Branch has changed the rate structure to a single rate from the two-tiered structure that was in place. It is the policy of the Branch to use a single rate unless there is a situation that makes it necessary to have a tiered rate.)

Service Charge per meter per month:

For	5/8 x 3/4 inch.....	\$ 9.50	\$ 25.51
For	3/4 inch.....	\$12.50	\$ 38.27
For	1 inch.....	\$15.00	\$ 63.79
For	1½ inch.....	\$18.00	\$127.57
For	2 inch.....	\$19.00	\$204.11

A comparison of monthly bills for a ¾-inch meter at various consumption rates is as follows:

Quantity Used (Ccf)	<u>Prior to Interim Rates</u>	<u>Proposed Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$12.50	\$38.27	\$25.77	206.17%
12.80 (Average)	\$25.47	\$65.53	\$40.06	157.33%
25	\$38.40	\$91.52	\$53.12	138.34%

\*On January 27, 2005, the Commission by Resolution W-4518 approved an interim rate increase to provide PSRWS with sufficient income to pay operating expenses pending the processing of the utility's general rate case.

Resolution W-4592  
PSRWS/Draft AL/SNR/MEY:jrb

**DRAFT**

April 13, 2006

**APPENDIX D**  
**PONDEROSA SKY RANCH WATER SYSTEM**

**ADOPTED QUANTITIES**  
Test Year 2005

1.	New Baseline Utility Plant in Service, Beginning of year	\$51,500
	Test Year Depreciation	\$1,500
	New Baseline Rate Base	\$50,000
2.	Ad Valorem Taxes:	
	Tax Rate	1 %
	Estimated Value of Land	\$50,000
	Total Property Tax	\$500
3.	Franchise Tax:	\$800
	Federal Income Tax	\$1,040
4.	Service Connections:	
	<u>Meter Size</u>	<u>Number of Connections</u>
	5/8 x 3/4"	0
	3/4"	95
	1"	0
	1-1/2"	0
	2"	0
	Total	95
5.	Purchased Power (Approximated):	
	<u>Schedule No. A-1</u>	<u>kWh</u> <u>\$/kWh</u>
	Winter	20,000      \$0.13
	Summer	30,000      \$0.18
	Total Ccf/kWh	0.29
6.	Payroll:	
	Labor	\$10,400
	Office	\$5,200
	Management	\$7,150
7.	Adopted Taxes:	
	Income Tax @ 22.52%	\$4,103

**APPENDIX E**  
**PONDEROSA SKY RANCH WATER SYSTEM**

**ADOPTED REVENUES**  
Test Year 2005

Meter Size	Quarterly Service Charge	Number of Customers	Annual Revenue
5/8 x 3/4 inch	\$76.54	0	0
3/4 inch	\$114.81	95	\$43,629
1 inch	\$191.36	0	0
1 1/2 inch	\$382.71	0	0
2 inch	\$612.34	0	0
3 inch	\$1,148.14	0	0
4 inch	\$1,913.57	0	0
Total Service Charge Revenue			\$43,629

Quantity Charge:	Per Ccf	Water Sold	Quantity Revenues
	\$2.13	14,589Ccf	\$31,075

Total Metered Revenues      \$43,629+\$31,075    =   \$74,404